

ORIGINAL

**MEMORANDUM  
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TO: THE COMMISSION

2009 MAY 12 P 4: 59

Arizona Corporation Commission

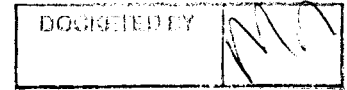
**DOCKETED**

FROM: Utilities Division

AT CORP COMMISION  
DOCKET CONTROL

MAY 12 2009

DATE: May 12, 2009



RE: IN THE MATTER OF THE APPLICATION OF RANCHO DEL CONEJO  
COMMUNITY WATER CO-OP, INC., FOR AN ARSENIC REMEDIATION  
SURCHARGE (DOCKET NOS. W-02102B-07-0273 AND W-02102B-07-0163)

### Introduction

On February 27, 2009, pursuant to Decision No. 70311<sup>1</sup>, Rancho Del Conejo Community Water Co-op, Inc. ("Rancho del Conejo" or "Cooperative") filed a request with the Arizona Corporation Commission ("Commission") for approval of an arsenic remediation surcharge. Rancho del Conejo is a non-profit corporation and a certificated Class C public service corporation that provides water service to approximately 327 customers in Pima County, Arizona. The Cooperative is located approximately 2½ miles north of the City of Tucson.

### Background

Rancho del Conejo's current rates were approved in Decision No. 70311.

Decision No. 70311 also authorized the Cooperative to borrow up to \$200,000 from the Arizona Water Infrastructure Finance Authority ("WIFA"), and ordered that the Cooperative file an arsenic remediation surcharge mechanism ("ARSM")<sup>2</sup> application for the arsenic related portion of the WIFA loan.

### ARSM

In the rate case, Staff recommended a methodology for determining the surcharge amount once the Cooperative knew the final loan amount and terms. Staff's methodology involved: 1) finding the annual payment on the loan; 2) finding the annual interest payment amount; 3) finding the annual principal payment amount; 4) calculating the total annual surcharge revenue requirement, which is the sum of the annual interest and principal payments; 5) determining the yearly total number of customers, by multiplying the total monthly number of bills for all meter sizes by 12; and 6) determining the monthly surcharge for each customer by dividing the annual surcharge revenue by the number of customer bills.

<sup>1</sup> Dated April 24, 2008.

<sup>2</sup> Portions of the Decision use the term "arsenic remediation surcharge" instead of "arsenic remediation surcharge mechanism" or "ARSM." This memorandum uses the latter term hereafter.

Decision No. 70311 concluded that Staff's recommendations were reasonable and should be adopted.<sup>3</sup>

Staff has replicated the methodology adopted by Decision No. 70311, to reflect the most recent data. The resulting surcharge would be \$3.18 per customer, as indicated in Schedule PMC-1, attached.

Staff has recommended in previous ARSM cases the use of the American Water Works Association ("AWWA") meter capacity multiplier, when recommending ARSM surcharge rates.<sup>4</sup> However, Staff inadvertently did not use the AWWA meter capacity multiplier in its recommendation leading to Decision No. 70311.

In the event that the Commission were to decide to include the AWWA meter capacity multiplier the ARSM surcharges by meter size would be as follows: 5/8 x 3/4 inch, \$2.90; 3/4 inch, \$4.35; and 1 inch, \$7.26 (as indicated in Schedule PMC-2).<sup>5</sup>

### **Cooperative's Adjustment**

In Rancho del Conejo's ARSM application, the Cooperative indicates that the surcharge should be increased by 10 percent to address nonpayment and late payment concerns.

Decision No. 70311, however, did not authorize an increase to the surcharge due to nonpayment and late payments; therefore, Rancho del Conejo's request should be denied.

### **Conclusions and Recommendations**

Staff concludes that implementation of an ARSM resulting in a surcharge of \$3.18 per customer, as indicated on Schedule PMC-1, is consistent with Decision No. 70311.

Staff recommends approval of an ARSM as shown on Schedule PMC-1.

Staff further recommends that Rancho del Conejo's request to increase the surcharge by 10 percent, be denied.

Staff further recommends that the Cooperative file a tariff explaining the terms and conditions of the arsenic remedial surcharge within 30 days of the effective date of the decision resulting from this proceeding.

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<sup>3</sup> Decision No. 70311 recommended a slightly higher operating margin, which is immaterial for the ARSM calculation.

<sup>4</sup> See further, Staff's testimony under Docket No. W-01583A-04-0188 et al., filed on January 25, 2006, and Docket No. W-01344A-05-0183 et al, filed on January 23, 2006.

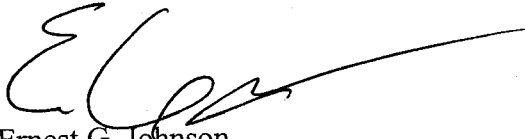
<sup>5</sup> Schedule PMC-2 provides the tentative surcharge for other meter sizes. This Memorandum omits those numbers since the Cooperative does not have any customers in such meter sizes at this time.

THE COMMISSION

May 12, 2009

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Staff further recommends that Rancho del Conejo notify its customers of the Arsenic Remedial Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.

A handwritten signature in black ink, appearing to read 'E. Johnson', with a long horizontal flourish extending to the right.

Ernest G. Johnson

Director

Utilities Division

EGJ:PMC:lhv\AH

Originator: Pedro M. Chaves

## CALCULATION OF SURCHARGE AMOUNT

**Arsenic Surcharge - as determined by Arsenic Remediation Surcharge Mechanism**

<b>Arsenic Remedial Plant Loan Amount</b>	<b>\$ 168,806</b>
<b>Total Yearly Interest and Principal Payments Based on a 20-year WIFA Loan and a 4.20% Interest Rate.</b>	<b>\$ 12,489.70</b>
<b>Total Annual Bills</b>	<b>3,924.00</b>
<b>Surcharge Amount</b> (\$12,490 / 3,924)	<b>\$ 3.18</b>

Meter Size	Number of Customers <sup>1</sup>	Number of Bills x 12	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	298	3576	\$ 3.18	\$ 38.19	\$ 11,382.05
3/4" Meter	12	144	\$ 3.18	38.19	458.34
1" Meter	17	204	\$ 3.18	38.19	649.31
1 1/2" Meter	0	0	-	-	-
2" Meter	0	0	-	-	-
3" Meter	0	0	-	-	-
4" Meter	0	0	-	-	-
6" Meter	0	0	-	-	-
<b>TOTAL</b>	<b>327</b>	<b>3924</b>			<b>\$ 12,489.70</b>

<sup>1</sup> As of March 31, 2009.

## CALCULATION OF SURCHARGE AMOUNT

**Arsenic Surcharge - as determined by Arsenic Remediation Surcharge Mechanism Inclusive of AWWA Meter Multiplier**

**Arsenic Remedial Plant Loan Amount** **\$ 168,806**

**Total Yearly Interest and Principal Payments Based on a  
20-year WIFA Loan and a 4.20% Interest Rate.** **\$ 12,489.70**

**Total Equivalent Annual Bills** **4,302**

**5/8"x 3/4" Meter Surcharge Amount** **\$ 2.90**

**3/4" Meter Surcharge Amount** **\$ 4.35**

**1" Meter Surcharge Amount** **\$ 7.26**

**1 1/2" Meter Surcharge Amount** **\$ 14.52**

**2" Meter Surcharge Amount** **\$ 23.23**

**3" Meter Surcharge Amount** **\$ 46.45**

**4" Meter Surcharge Amount** **\$ 72.58**

**6" Meter Surcharge Amount** **\$ 145.16**

Meter Size	Number of Customers <sup>1</sup>	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	298	1	298	3,576	\$ 2.90	\$ 34.84	\$ 10,381.95
3/4" Meter	12	1.5	18	216	4.35	52.26	627.10
1" Meter	17	2.5	43	510	7.26	87.10	1,480.65
1 1/2" Meter	0	5	0	0	14.52	0	0
2" Meter	0	8	0	0	23.23	0	0
3" Meter	0	16	0	0	46.45	0	0
4" Meter	0	25	0	0	72.58	0	0
6" Meter	0	50	0	0	145.16	0	0
<b>TOTAL</b>	<b>327</b>		<b>359</b>	<b>4302</b>			<b>\$ 12,489.70</b>

<sup>1</sup> As of March 31, 2009.

### WIFA LOAN DATA

Amount Requested	\$168,806		
Down Payment:	\$0		
Amount Financed:	\$168,806	Compounding Periods:	12
Number of years:	20	APR:	4.28%
Interest Before Subsidy	6.00%		
WIFA Subsidy Rate	70.00%		
WIFA Interest rate (r):	4.20%		

### LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [ r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$1,040.81	\$168,806.00	\$590.82	\$449.99	\$168,356.01			
2	1,040.81	168,356.01	589.25	451.56	167,904.45			
3	1,040.81	167,904.45	587.67	453.14	167,451.31			
4	1,040.81	167,451.31	586.08	454.73	166,996.58			
5	1,040.81	166,996.58	584.49	456.32	166,540.26			
6	1,040.81	166,540.26	582.89	457.92	166,082.34			
7	1,040.81	166,082.34	581.29	459.52	165,622.82			
8	1,040.81	165,622.82	579.68	461.13	165,161.69			
9	1,040.81	165,161.69	578.07	462.74	164,698.95			
10	1,040.81	164,698.95	576.45	464.36	164,234.59			
11	1,040.81	164,234.59	574.82	465.99	163,768.60			
12	1,040.81	163,768.60	573.19	467.62	163,300.98	6,984.68	5,505.02	12,489.70

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES

Chairman

3 GARY PIERCE

Commissioner

4 PAUL NEWMAN

Commissioner

5 SANDRA D. KENNEDY

Commissioner

6 BOB STUMP

Commissioner

7  
8 IN THE MATTER OF THE APPLICATION  
9 OF RANCHO DEL CONEJO COMMUNITY  
10 WATER CO-OP, INC., FOR AN ARSENIC  
11 REMEDIATION SURCHARGE

DOCKET NOS. W-02102B-07-0273

W-02102B-07-0163

DECISION NO. \_\_\_\_\_

ORDER

12 Open Meeting  
13 May 26 and 27, 2009  
14 Phoenix, Arizona

14 **BY THE COMMISSION:**

15 FINDINGS OF FACT

16 1. Rancho del Conejo Community Water Co-op, Inc. ("Rancho del Conejo" or  
17 "Cooperative") is a non-profit corporation and a certificated Class C public service corporation  
18 that provides water service to approximately 327 customers in Pima County, Arizona. The  
19 Cooperative is located approximately 2½ miles north of the City of Tucson.

20 2. Rancho del Conejo's current rates were approved in Decision No. 70311, dated  
21 April 24, 2008.

22 3. Decision No. 70311 also authorized the Cooperative to borrow up to \$200,000 from  
23 the Arizona Water Infrastructure Finance Authority ("WIFA"), and ordered that the Cooperative  
24 file an arsenic remediation surcharge mechanism ("ARSM") application for the arsenic related  
25 portion of the WIFA loan.

26 4. On February 27, 2009, pursuant to Decision No. 70311, Rancho del Conejo filed an  
27 application with the Arizona Corporation Commission ("Commission") requesting an Arsenic  
28 Remediation Surcharge Mechanism ("ARSM").

5. In the rate case, Staff recommended a methodology for determining the surcharge amount once the Cooperative knew the final loan amount and terms. Staff's methodology involved: 1) finding the annual payment on the loan; 2) finding the annual interest payment amount; 3) finding the annual principal payment amount; 4) calculating the total annual surcharge revenue requirement, which is the sum of the annual interest and principal payments; 5) determining the yearly total number of customers, by multiplying the total monthly number of bills for all meter sizes by 12; and 6) determining the monthly surcharge for each customer by dividing the annual surcharge revenue by the number of customer bills.

6. Decision No. 70311 concluded that Staff's recommendations were reasonable and should be adopted.

7. Staff replicated the methodology adopted by Decision No. 70311, to reflect the most recent data. The resulting surcharge was \$3.18 per customer.

8. In Rancho del Conejo's ARSM application, the Cooperative indicated that the surcharge should be increased by 10 percent to address nonpayment and late payment concerns.

9. Decision No. 70311, however, did not authorize an increase to the surcharge due to nonpayment and late payments; therefore, Rancho del Conejo's request should be denied.

10. Based on its analysis, Staff concluded that implementation of an ARSM resulting in a surcharge of \$3.18 per customer is consistent with Decision No. 70311.

11. Staff recommends approval of an ARSM as shown below:

Meter Size	Number of Customers <sup>1</sup>	Number of Bills x 12	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	298	3576	\$ 3.18	\$ 38.19	\$11,382.05
3/4" Meter	12	144	\$ 3.18	38.19	458.34
1" Meter	17	204	\$ 3.18	38.19	649.31
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2" Meter	0	0	-	-	-
3" Meter	0	0	-	-	-
4" Meter	0	0	-	-	-
6" Meter	0	0	-	-	-
<b>TOTAL</b>	<b>327</b>	<b>3924</b>			<b>\$12,489.70</b>

<sup>1</sup> Number of customers as of March 31, 2009.



13. Staff further recommends that the Cooperative file a tariff explaining the terms and conditions of the arsenic remedial surcharge within 30 days of the effective date of the decision resulting from this proceeding.

14. Staff further recommends that Rancho Del Conejo notify its customers of the Arsenic Remedial Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.

15. Staffs recommendations are reasonable and should be adopted.

1. Rancho del Conejo is a public service corporation pursuant to article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Rancho del Conejo and the subject matter of the application.

3. Staff's recommendations are reasonable and should be adopted.

IT IS THEREFORE ORDERED that the Application of Rancho del Conejo Community Water Co-op, Inc. for authorization of an arsenic remediation surcharge as described herein is hereby approved.

IT IS FURTHER ORDERED that Rancho del Conejo Community Water Co-op, Inc.'s request to increase the surcharge by 10 percent is hereby denied.

IT IS FURTHER ORDERED that Rancho del Conejo Community Water Co-op, Inc. shall file with the Commission's Docket Control, as a compliance item in this docket, a tariff explaining the terms and conditions of the arsenic remedial surcharge within 30 days of the date of this decision.

...

IT IS FURTHER ORDERED that Rancho del Conejo Community Water Co-op, Inc. shall notify its customers of the Arsenic Remedial Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

MICHAEL P. KEARNS  
INTERIM EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:PMC:lhmvJMA

1 SERVICE LIST FOR: RANCHO DEL CONEJO COMMUNITY WATER CO-OP, INC.  
2 DOCKET NO.: W-02102B-07-0273 and W-02102B-07-0163

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